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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

April 27, 2005

- ◆ Integrity
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- ◆ Independence
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Honorable Stephen P. Laffey
Mayor of the City of Cranston
869 Park Avenue
Cranston, RI 02910

Honorable Members of the Cranston City Council
869 Park Avenue
Cranston, RI 02910

Honorable Members of the Cranston School Committee
845 Park Avenue
Cranston, RI 02910

Dear Ladies and Gentlemen:

In March 2005, the Cranston City Council and the Cranston School Committee asked me to review a report entitled *Performance Audit of the Cranston Public Schools* dated September 2004. The City Council and School Department were seeking guidance from our office in an effort to determine whether the cost savings identified in the report could be achieved as part of the fiscal 2006 budget process. Specifically, we were asked to comment on the proposed cost savings identified therein (page 19 of the report's Executive Summary entitled "Summary of Savings") as well as the sections of the report that support the proposed cost savings. Potential annual recurring cost savings identified in the performance audit report range between \$4 and \$6 million. One time cost savings of \$6.7 million are also identified.

Background

Performance audits can be very helpful in providing auditees with ways to improve program effectiveness and conduct operations more economically and efficiently thereby resulting in cost savings.

The Request for Proposals (RFP) for auditing services for the school performance audit dated March 2003 states that the City was undergoing a fiscal recovery plan to address a significant decline in the City's financial situation. The RFP stated that the City planned to implement viable recommendations emanating from this audit (as well as audits of other departments) in restoring fiscal stability to the City.

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The scope of service, as described in the RFP, was to conduct a comprehensive performance audit of the school department for a two year period ended December 31, 2002 with the overall objective of identifying cost saving measures while adhering to state and federal laws and regulations. The contract awarded in November 2003 changed the audit period to the two years ended June 30, 2004. The performance audit report was issued in September 2004.

The audit report also states that the study was initiated under the Carulo statute, Section 16-2-21.4 of the Rhode Island General Laws. That law provides that when a school committee brings an action in the superior court for a municipality to increase its appropriation to the school department, the chief executive officer of the municipality shall cause to have a financial and program audit of the school department conducted.

Objectives

Our goal was to provide relevant guidance to those individuals responsible for attempting to use the performance audit report to enhance the efficiency or effectiveness of the Cranston Public Schools. Our goal was not to evaluate the quality of the report or the auditing firm's adherence to applicable professional standards. We requested, but were denied, access to the auditors and their working papers. Further, because we did not perform an audit and did not have the opportunity to consult with the auditors or review the auditing firm's working papers, we are not in a position to specifically endorse or reject any of the cost savings identified in the performance audit of the Cranston Public Schools. Our office did not conduct an audit of the Cranston Public Schools nor did we provide recommendations for additional or alternative cost savings measures as these steps were beyond the scope of this review.

We reviewed the recommended cost saving measures that had the highest dollar values and the information contained in the report supporting how the cost savings were calculated. As a result, we reviewed the auditor's analysis relating to approximately 90% of the total projected savings in the audit. In addition, we consulted with various professionals possessing expertise in the areas we selected for review.

Conclusions

Caution must always be exercised to ensure the data used in an analysis is appropriate, relevant, and comparable. The same data can be used in varying ways to support different, and at times, contradictory conclusions. Our limited review and discussions with professionals working in the Rhode Island education and transportation fields suggest that some of the data used to support conclusions regarding potential costs savings should be reexamined to ensure that the data is an appropriate benchmark or valid for comparing Cranston's relative education costs. For example:

- ❑ Cranston's special education costs on a district basis compare favorably with other "ring communities" (Warwick, West Warwick, North Providence, East Providence) while data accumulated for a specific elementary school may initially appear relatively high. The Rhode Island Department of Education believes district to district comparisons are more meaningful when using InSite data. Further, RIDE indicated that RI regulations are based on student head counts -- the Cranston Public Schools performance audit report uses a full time equivalent formula for calculating the amount of services students require. In effect, the conclusions drawn are based on calculations that would not conform with minimum regulatory requirements.
- ❑ Excess capacity in the elementary schools must adequately consider all applicable class size factors.
- ❑ Cranston's school transportation costs may best be compared to communities with similar population densities.

Based on our limited review, we believe that the projected cost savings identified in the areas of special education (\$3,000,000) and bus transportation (\$1,200,000) may not be achievable. Other opportunities for savings may exist in these areas but further analysis would be necessary.

The recurring savings which the performance audit report states will result from the closing of four schools (\$1,277,000) needs to be recomputed to factor in the following:

- ❑ one elementary school included in the analysis has been closed;
- ❑ the excess capacity computation may be reduced when the limitations placed on class sizes for special education students are factored in; and
- ❑ the projected cost savings would be further reduced by the increased transportation costs that will result from busing children a greater distance to schools outside their neighborhoods.

The performance audit includes nearly \$1.3 million in projected annual recurring savings relating to the closing of four elementary schools although the auditors describe this initiative as the least attractive option since the Mayor and School Committee are committed to the neighborhood model. The likelihood of realizing these savings is more remote when the outcomes of this action are fully considered. We were informed that some children might be required to change elementary schools as they proceed through the grades since the excess capacity is dispersed among many schools and grade levels. Elementary age school children from the same families may also have to be sent to different schools to implement this plan.

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We recommend that the School Department, School Committee, and City Council reexamine the potential cost savings identified in the performance audit using the observations we highlight in the enclosed appendix, and making use of resources within the Rhode Island Department of Education.

Sincerely,

A handwritten signature in black ink that reads "Ernest A. Almonte". The signature is written in a cursive style with a large initial 'E'.

Ernest A. Almonte, CPA, CFE
Auditor General

Enclosure

COMPARATIVE ANALYSIS – SPECIAL EDUCATION

In Chapter 2 - Comparative Analysis, the auditor's objective was to provide analysis of school department costs in comparison to several Rhode Island school districts. In this section the auditors identified approximately \$3 million of recurring savings in special education costs. This represents 49% of total recurring annual savings of \$6,117,000. The summary of savings is as follows: Elementary Special Education \$1,000,000, Middle School Special Education \$1,000,000, and High School Special Education \$1,000,000.

The overall conclusion, based upon the comparative analysis performed by the auditor's relating to special education, is:

“Even though Cranston's SPED enrollment is very consistent with the Ring communities, Cranston's spending on a comparative basis is significantly higher to educate SPED students. Cranston Public Schools reports higher SPED costs than its peers at the elementary, middle and high school levels.”

The report states that the auditors used In\$ite data issued by the Rhode Island Department of Elementary and Secondary Education (RIDE) to perform the analysis of special education costs. They compared Cranston's data to data for what RIDE refers to as ring communities (Cranston, Warwick, West Warwick, North Providence, and East Providence). As a result, we contacted RIDE's Director of Special Populations, as well as the Finance Specialist responsible for In\$ite data.

Based upon a review of the fiscal year 2003 In\$ite data (specifically In\$ite's 2002-2003 Charts and Reports for Schools and Districts – Report #12 Total Expenditures by Program), Cranston's per pupil special education spending for the ring communities is as follows: North Providence (\$43,843), Warwick (\$43,690), West Warwick (\$34,931), Cranston (\$32,554), and East Providence (\$26,162).

- ❑ Cranston is the fourth lowest of the five ring communities in per pupil special education spending for fiscal year 2003.
- ❑ Cranston ranked as the fourth lowest of the five ring communities in per pupil special education spending in fiscal years 2000 through 2004.

In addition, the RI Public Expenditure Council's report dated December 2004, Results – Education in Rhode Island 2004, ranks Cranston below the ring community average and also below the state average for special education per pupil expenditures. Page 32, table 16, lists Cranston's 2003 special education per pupil expenditures as \$9,089, while the ring average was \$11,527 and the state average was \$10,929.

Special Education – Elementary Schools:

According to the audit report, Cranston elementary schools' average per pupil special education costs were compared to the ring communities (Warwick, West Warwick, North Providence, and East Providence). The auditors found that, with respect to instructional costs, Cranston's elementary schools, on average, spend less per pupil than the average of the ring communities. The auditors indicate Cranston's high elementary special education spending is focused on certain schools that have small enrollment, thus there is high per pupil spending to the ring average and to Cranston's average.

- The Rhode Island Department of Elementary and Secondary Education advised us that they conduct analyses of statistical trends on a district-wide basis, not individual schools.

Per page 2-4, the audit represents that Cranston's FTE special education elementary enrollment is 280. This enrollment (280 students) is divided by the 8.0 standard (referred to on page 2-7) resulting in 35 teachers. The audit then represents that applying this standard would reduce Cranston's elementary special education teachers from 54 to 35, a reduction of 19 teachers. At \$62,000 per teacher, this represents \$1,178,000.

- An analysis of personnel requirements for special education could be enhanced through a review of data from the Individual Education Plans (IEP) of students. RIDE indicated the data could be extracted without personally identifiable information being revealed.
- RIDE does not provide Special Education Standards. In addition to the 1:8 student to teacher ratio used in the performance audit computations (referred to as the 8.0 standard), RIDE indicated that there are regulations that govern the education of children with disabilities and include the number of students that may be served by a teacher based on the child's educational needs. The Rhode Island Regulations Governing the Education of Children with Disabilities, 2000, describe the requirements for special education services as follows:
 - Per 300.552(B), Self-contained special classes whether part-time or full-time for school aged children with mild and moderate disabilities shall be limited to eight (8) children unless there is an equivalent of a full-time teacher assistant in which case the maximum number allowable shall be ten (10) children.
 - Per 300.552(B), Maximum class size for children with severe, profound or multiple disabilities shall not exceed six (6) children and shall include a full-time teacher assistant when the class size exceeds three (3) children.
 - Per 300.552(B), Class size represents the total number of students assigned to the particular teacher assigned to that class comprising that teachers caseload, regardless of the number of students physically present in class at any one time.

- Per 300.552(C), Caseloads for special education resource programs shall not exceed thirty children with disabilities per special education resource teacher.
- According to RIDE, the Rhode Island regulations are based on student head counts. The Cranston Public Schools comparative analysis report uses an FTE formula for calculating the amounts of services the students require. In effect, the conclusions drawn are based on calculations that would not conform to minimum Rhode Island Regulatory requirements.
- The teacher salary of \$62,000 would be representative of a top step salary in the Cranston School Department. By contract, only the teachers with the least seniority would be eliminated or reclassified.

Special Education – Middle and High Schools:

According to the audit report, Cranston's average per pupil costs were compared to the average of the four ring communities (Warwick, West Warwick, North Providence and East Providence). The auditors reported that, for the middle and high schools, Cranston is spending more per pupil than the average of the ring school systems in instruction and instruction support. The variance (Cranston's costs compared to an average of the ring communities) was multiplied by the number of FTEs for both the middle and high schools to arrive at the potential savings of approximately \$1 million for the middle schools and \$1 million for the high schools. According to RIDE:

- Rhode Island regulations are based on student head counts. The Cranston Public Schools comparative analysis report uses an FTE formula for calculating the amounts of services the students require. In effect, the conclusions drawn are based on calculations that would not conform to minimum Rhode Island Regulatory requirements.
- In the Cranston Public Schools Comparative Analysis Report it is noted that certain positions may not be attributable entirely as special education costs yet some of those positions are included in the analysis of middle and high school levels. Examination should include positions directly attributable to services (direct and indirect) to individual students or groups of students. The auditors note specific interventions such as planning centers which are primarily financed by special education but serve all students. Shifting the focus from a purely FTE discussion to a measurable delivery of units of services to students may allow examination of the cost vs. benefits of generically provided interventions.

SCHOOL DEPARTMENT FACILITIES

In Chapter 7 - School Department Facilities, the auditor's objective was to determine whether existing school facilities provide sufficient capacity for the school system through the next 10 years. The auditors performed an analysis and determined that there was an excess capacity at the elementary school level of 1091 seats. They computed \$1,277,000 in annual recurring savings if Cranston were to close four (4) elementary schools and consolidate the students into the remaining fifteen (15). The savings would result from reductions in operating costs (\$875,000), groundskeeper/utility (\$30,000), lunchroom and food service (\$12,000) and teachers (\$360,000). In addition, the auditors projected \$6,675,000 of one time savings and revenues primarily by selling the closed school buildings. The auditors report that both the Mayor and the School Committee do not want to deviate from the neighborhood school model. They state further that closing schools will prove less palatable for the community than other options. They believe it should be the last option pursued by the School Department.

The annual recurring savings projected by the auditors if four schools were closed represents approximately 21% of total projected annual recurring of savings (\$6,117,000). The auditors did not report excess capacity at the middle school and high school levels. In many cases enrollment at those levels was found to exceed capacity.

Many variables can influence capacity computations. If capacity were computed today it might result in a different number than that computed by the auditors in 2004. For example, a school with a capacity for 250 seats that was included in the auditor's computation of excess capacity has now been closed.

In addition, it is important when computing capacity to make adjustments, when a classroom's physical capacity for 25 children must be reduced due to regulations that limit class size. For example, self-contained special education classes can be limited to 10 children per classroom.

The School Department indicated several concerns with full implementation of this recommendation although they will continue to assess any aspects of it that may be feasible:

- The excess seats are spread between 13 elementary schools and various grade levels within those schools. Implementing this plan would require busing elementary school students outside their neighborhood school location. It may also require sending elementary school children from the same families to different schools and requiring children to change schools several times as they proceed through the elementary grades.

- Busing children a further distance may increase transportation costs, which could reduce the projected savings.

- The one time recurring savings projected from selling the elementary school buildings if elementary schools are consolidated (\$6.3 million) may need to be adjusted to reflect the School Department's additional needs for the building space. For example, the Cranston administration offices will be converted into additional space for Cranston East High School in 2006 requiring the administrative offices to locate new office space.

BUS TRANSPORTATION SYSTEM COST ANALYSIS

In Chapter 8 - Bus Transportation System Cost Analysis the auditor's objective was to identify potential cost savings through alternative busing arrangements. As a result they performed a cost analysis of the school administered bus transportation system and a comparison to alternatives such as hiring a private contractor.

The auditors report that:

"The cost of providing transportation to students of Cranston is, on average, higher than other communities polled".

The auditors project annual recurring savings of \$1.2 million if they privatize their transportation system. This represents approximately 20% of total projected annual recurring savings of \$6,117,000.

We reviewed Chapter 8 of the performance audit report to determine the methodology used to compute \$1.2 million of savings. Exhibit 8-7 of the auditor's report provides the auditors computation of projected savings in 2003 and 2004. Projected savings appear to be derived by multiplying the rate that certain other communities are currently paying to outside bus companies by the number of buses in Cranston's current bus fleet. That amount is then compared to the amount computed as Cranston's bus transportation costs. It appears that the projected savings for transportation included on page 19 of the *Executive Summary* (\$1.2 million) represents the savings computed by the auditors for 2004.

The \$1.2 million of projected savings in 2004 is computed by comparing the bus transportation costs computed for West Warwick's Public Schools and Pawtucket's Public Schools to the bus transportation cost computed for Cranston Public Schools. The auditors computed transportation costs for West Warwick and Pawtucket by multiplying their contracted bus rates by the number of buses Cranston has in four categories: regular transportation, special education transportation (180 days), special education transportation (230 days), and non-public transportation. The auditors take an average of the computed costs for West Warwick and Pawtucket and compare that amount to the computed costs for Cranston.

We discussed various methodologies for comparing transportation costs with Rhode Island Public Transit Authority's (RIPTA) representatives. The RIPTA representatives advised us that they have consulted with various school districts in the past including the Cranston Public Schools and are familiar with the services provided including scheduling and busing operations.

They advised us that comparing transportation costs for different communities using their contracted bus rates is best achieved when the communities have similar population densities. Communities with higher population densities generally require shorter bus drives than those with lower densities thereby affecting the comparability of their rates per bus per day. RIPTA

provided us with a schedule of population densities for Rhode Island communities based on the most recent US Bureau of Census data. It lists Cranston's population density as 2,771 per square mile, and Pawtucket's and West Warwick's as 8,386 and 5,395 respectively. They indicated that the City of Warwick, which has a population density of 2,417 per square mile, makes a good comparison.

The RIPTA representatives noted that there is great variability in special education transportation costs among various school districts statewide. They believed that a number of variables can impact a comparison of special education transportation costs that may justify a separate comparative analysis. For example, those costs are impacted by the number of children that must be sent out of district for services and the location of these out of district placements. Therefore, a separate comparative analysis of special education transportation costs, which considers additional data, could be valuable.

The auditors performed a separate comparison of transportation costs between Cranston and Warwick for 2004, and since RIPTA had advised that the population density in Warwick is comparable to Cranston's we reviewed this analysis. In this comparison the auditors multiplied Warwick's contracted bus rate times the number of buses in Cranston and compared it to their computed costs for Cranston. However the auditors excluded costs for special education transportation and gasoline in the comparison. They reported that Warwick's contracted bus rate does not include gasoline or special education services. Warwick has its own special education bus fleet and the auditors reported that they were not able to obtain special education transportation costs for Warwick. The auditors project Cranston's transportation costs to be \$239,000 higher than Warwick's in 2004.

The Cranston Public Schools questioned this computed difference indicating that additional transportation costs incurred by Warwick should have been considered to make their costs comparable to Cranston's. The Director of Transportation for the Cranston Public Schools advised us that he spoke with a Director at the Warwick Public Schools regarding their transportation costs. He was advised that in addition to paying a contracted bus rate, Warwick incurs additional bus transportation costs for bus monitors estimated at approximately \$285,000, and administrative costs for salaries and related payroll taxes for the director and secretary (amount not disclosed).

RIPTA representatives also discussed bus scheduling with us. They stated that Cranston's Director of Transportation does a good job scheduling bus transportation. They stated that exhibits 8-1 to 8-3 in the auditors report would indicate to them that Cranston's Transportation Director is factoring the natural decline in ridership that occurs between September and April. In their opinion this demonstrates that Cranston does not have a significant number of excess buses on the road.

RIPTA officials cautioned that school districts may not benefit from hiring bus contractors to manage their scheduling even if they choose to privatize. They advised that school districts would benefit from retaining a person with experience similar to that of Cranston's Director of Transportation to oversee scheduling because bus contract vendors may have less incentive to

gain efficiency through scheduling. This would reduce their fees, which are based on a rate per bus per day.

RIPTA officials indicated that there are alternative measures, some which need to be analyzed on a statewide basis that could result in reducing transportation costs for school districts.

In summary, there may be some savings that could be realized through alternative measures, including efforts to improve delivery of transportation services statewide. However, the Cranston Public Schools would benefit from considering additional data as they continue to work toward increasing economy and efficiency.